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SUPREME COURT, U.S.

No. 585

Supreme Court, U.S.
FILED
OCT 27 1971
E. ROBERT SEAVER, CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1971

THIOKOL CHEMICAL CORPORATION
Petitioner,

versus

BURLINGTON INDUSTRIES, INC. AND
AVISUN CORPORATION
Respondents.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

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THIOKOL CHEMICAL CORPORATION
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BURLINGTON INDUSTRIES, INC. AND
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Respondents.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

Petitioner Thiokol Chemical Corporation (hereinafter "Thiokol") prays that a writ of certiorari issue to review the decision of the U. S. Court of Appeals for the Third Circuit entered September 7, 1971 in cases Nos. 19,166 and 71-1031 (which were consolidated with No. 71-1030).

Opinions Below

The Opinion of the Court of Appeals in the consolidated cases is set out in the Appendix hereto at page A-2.

The Opinion of the United States District Court for the District of Delaware in the action on which appeal No. 19,166 is based is reported at 313 F.Supp. 253 and is reprinted in the Appendix hereto at page A-8.

Appeal No. 71-1031 was from an order of the United States District Court for the District of Delaware dated December 11, 1970 which is set out in the Appendix at page A-15.

Jurisdiction

The judgment of the Court of Appeals was entered on September 7, 1971. Jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

Questions Presented

1. Does a United States District Court have jurisdiction of an action brought by a patent licensee against its licensor for declaratory judgment as to the validity, enforceability and infringement of the licensed patents, where there is a controversy between them on these issues which subjects the licensee's customers to an action for patent infringement of which the federal courts would have exclusive jurisdiction under 28 U.S.C. § 1338(a)*?

2. Does 28 U.S.C. § 2283* prevent a United States District Court from enjoining the parties in an action before it for declaratory judgment as to the validity, enforcement and infringement of patents, from further proceedings in a later-filed state court action between them involving the identical issues?

Statement of the Case

This is an action for declaratory judgment brought by Thiokol against Burlington Industries, Inc. and Avisun Corporation (hereinafter "Burlington" and "Avisun", respectively) for a declaratory judgment of the invalidity, unenforceability and non-infringement of U.S. patents Nos.

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* Set out in the Appendix at page A-1.

3,110,905; 3,336,178; and 3,359,934. All three parties are Delaware corporations. Jurisdiction was based upon 28 U.S.C. § 1338(a). The first two of the patents in suit are owned by Burlington and the third is owned by Avisun, with Burlington having the right to grant licenses under it.

The patents in suit cover certain types of tufted pile fabrics. Thiokol has never made or sold tufted pile fabrics but has made and sold backing materials which some of its customers have used in making such fabrics. Burlington licensed Thiokol under the patents in suit, the license agreement requiring the payment by Thiokol of a royalty of one cent per square yard of backing material sold by the licensee "which, but for this license, would infringe any of said claims of said patents if utilized as a backing material in the manner described in the patent" and provided that such payment "will automatically grant a customer *** or user of the *** backing material the right to utilize the *** backing material in the manner described in said patents *** without the payment of an additional royalty."

Thiokol did not pay any royalty under the agreement on certain backing materials which it has sold, and Burlington demanded such royalties. Thus, Thiokol's customers were not licensed to use these materials in making tufted fabrics under the licensed patents and were subject to an action for alleged infringement of the patents.

To resolve this controversy, Thiokol, on September 19, 1969, in reliance on this Court's decision in *Lear, Inc.* v. *Adkins,* 395 U.S. 653 (1969), brought an action for a declaratory judgment of the invalidity, unenforceability and non-infringement of the licensed patents. On motion by defendants, the action was dismissed for want of federal jurisdiction, the District Court citing this Court's rule in *Public Service Commission* v. *Wycoff,* 344 U.S. 237 (1952), that "it is the character of the threatened action *** which will determine whether there is federal-question jurisdic-

tion." The District Court observed that since, at the time the action was filed, Thiokol was a licensee who was threatened with a state court action for breach of the license agreement, the reversal of the parties by the bringing of a declaratory judgment did not change the nature of the controversy as one justiciable in the state courts. Thiokol filed an appeal, No. 19,166, and the Court of Appeals for the Third Circuit affirmed.

Shortly after filing the first action, Thiokol gave notice of terminating the license pursuant to its terms and, after the effective date of termination, brought a second action in the U.S. District Court for the District of Delaware against the same parties for a declaratory judgment of the invalidity, unenforceability and non-infringement of the same patents. Again defendants moved for dismissal on the ground of lack of jurisdiction. The District Court denied this motion, since at the time the action was filed plaintiff was no longer a licensee, and the "threatened action" against plaintiff was one for patent infringement, of which the federal courts would have exclusive jurisdiction under 28 U.S.C. § 1338(a). On defendants' motion, the District Court certified the question for interlocutory appeal under 28 U.S.C. § 1292(b). Burlington and Avisun filed an appeal, No. 71-1030, and the Court of Appeals for the Third Circuit affirmed.

Meanwhile, on December 22, 1969, Burlington had brought an action in assumpsit against Thiokol in the Court of Common Pleas of Bucks County, Pennsylvania for recovery of royalties allegedly due under the license agreement. On its own motion, the U. S. District Court enjoined the parties from further proceedings in said Bucks County action pending final determination of the federal actions involving the same issues. Burlington filed an appeal, No. 71-1031, from that injunction and the Court of Appeals reversed, on the asserted basis of 28 U.S.C. § 2283.

Reasons for Granting the Writ

Appeal No. 19,166

In *Public Service Commission* v. *Wycoff*, 344 U.S. 237 (1952), this Court ruled that "it is the character of the threatened action *** which will determine whether there is federal question jurisdiction." Both the District Court and the Court of Appeals misapplied the doctrine of *Wycoff*, ruling that there was no federal jurisdiction since the "threatened action" against plaintiff was a state court action for breach of a license agreement, ignoring the additional "threatened action" against Thiokol's customers for patent infringement.

Since Thiokol's customers were licensed to use the backing materials obtained from Thiokol in making the tufted pile fabrics covered by the licensed patents *if and only if* Thiokol had paid on such backing materials royalties at the rate specified in the license agreement, and since Thiokol had not paid such royalties, its customers were clearly not licensed. Thus the only action which the patent owners Burlington and Avisun could have against the customers was an action for patent infringement, of which the federal courts would have exclusive jurisdiction under 28 U.S.C. § 1338(a). And, of course, a "threatened action" against Thiokol's customers creates the basis for a declaratory judgment action by Thiokol. *Kerotest Mfg. Co.* v. *C-O-Two Fire Equipment Co.*, 342 U.S. 180 (1952).

This Court should clarify the application of the *Wycoff* rule to situations like the present where there are *two* threatened actions, one state and one federal, and should make clear that as long as a federal action is threatened, there is federal jurisdiction for an action for declaratory judgment, even though a state action is also threatened.

Appeal No. 71-1031

In *Mandeville* v. *Canterbury*, 318 U.S. 47 (1943), this Court ruled that 28 U.S.C. § 2283 did not prohibit a federal

court from restraining proceedings in a later-filed state court action, where the suits in question were *in rem* or *quasi in rem* in nature.

In the recent case of *Blonder-Tongue Laboratories, Inc.* v. *University of Illinois Foundation*, _____ U.S. _____, 91 S.Ct. 1434 (1971), this Court ruled that a decision of patent invalidity in an action for patent infringement against one defendant would estop the patent owner thereafter to prosecute an action for patent infringement against a different defendant, an effect which the Court referred to as "*in rem* invalidity."

A fortiori, a decision of patent invalidity would be binding in a second action between the *same* parties. Thus the Bucks County action and the federal action in the District of Delaware are *in rem* in nature.

This Court should make clear that its rule in *Mandeville* applies to copending federal and state actions involving the validity, enforceability and infringement of the same patents.

Since Thiokol's first federal action (which, as has been shown, was improperly dismissed) was filed before Burlington's Bucks County action, the District Court properly enjoined further proceedings in the latter action. In overruling that order, the Court of Appeals overlooked this Court's rule in *Mandeville* and the *in rem* nature of patent litigation.

Conclusion

Certiorari should issue to clarify the applicability of this Court's rule in *Wycoff* to situations where both federal and state actions are threatened, and the applicability of

this Court's rule in *Mandeville* to copending federal and state actions involving the same patents.

Respectfully submitted,

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APPENDIX

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Statutes Involved

28 U.S.C. § 1338(a):

> The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, copyrights and trade-marks. Such jurisdiction shall be exclusive of the courts of the states in patent and copyright cases.

28 U.S.C. § 2283:

> A court of the United States may not grant an injunction to stay proceedings in a State court except as expressly authorized by Act of Congress, or where necessary in aid of its jurisdiction, or to protect or effectuate its judgments.

Decision of the Court of Appeals

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

Nos. 19,166, 71-1029, 71-1030 and 71-1031

THIOKOL CHEMICAL CORPORATION

v.

BURLINGTON INDUSTRIES, INC.,
and AVISUN CORPORATION

THIOKOL CHEMICAL CORPORATION,
Appellant in No. 19,166;

AVISUN CORPORATION,
Appellant in 71-1029;

BURLINGTON INDUSTRIES, INC.,
Appellant in Nos. 71-1030 and 71-1031

APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

Argued March 30, 1971

Before HASTIE, *Chief Judge,* and SEITZ and ALDISERT, *Circuit Judges.*

OPINION OF THE COURT

(Filed September 7, 1971)

HASTIE, *Circuit Judge.*

These consolidated appeals are from judgments in two consecutive suits, each filed in the District Court for the District of Delaware by the manufacturer of certain carpet backing against owners of certain patents to obtain declaratory judgments as to the validity of the patents and their possible infringement by the plaintiffs.

The complaint in the first suit acknowledges that the defendants have granted the plaintiff a non-exclusive license to use the patents in question and that the plaintiff has paid royalties thereunder for one type of carpet backing that it manufactures and sells. Plaintiff also asserts that it is about to manufacture and proposes to sell a somewhat different backing. It is alleged that the defendants have claimed that both backings are covered by the patents, although in fact and in law the patents are invalid and cover neither backing, and that royalties heretofore paid on one backing were paid in error. The complaint asks for a declaratory judgment that the manufactures in question do not infringe the patents, that the patents are invalid and that the plaintiff is entitled to recover the amounts paid as royalties.

The district court granted a defense motion to dismiss the action for want of federal jurisdiction. The only basis of jurisdiction pleaded or arguable is that section 1338(a) of title 28, United States Code, makes this action cognizable in a United States District Court as one that "arises under" the patent laws.[1]

To support that claim, the plaintiffs rely upon *Lear, Inc.* v. *Adkins,* 1969, 395 U.S. 653. But that decision merely abrogated the judge-made doctrine of "license estoppel" which had been a defense to attack by a licensee upon a patent, the benefit of which he had sought and received. Moreover, that case came to the Court for review of a decision of a state court. Thus, the question whether such a suit as we have here is within original federal jurisdiction was not before the court in the *Lear* case.

In resolving the jurisdiction question against the plaintiffs, the court below appropriately quoted the rationalization of the Supreme Court in *Public Service Comm'n* v.

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[1] Section 1338(a) reads:

"(a) The district court shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, copyrights and trademarks. . . ."

Wycoff Co., 1952, 344 U.S. 237, 248: "Where the complaint in an action for declaratory judgment seeks in essence to assert a defense to an impending or threatened state court action, it is the character of the threatened action, and not of the defense, which will determine whether there is federal-question jurisdiction in the District Court."

Here, the plaintiff was threatened with no more than a suit by the defendants charging it as patent licensee with breach of contract to pay agreed sums for the licensed use of certain patents.[2] The prospect was that the question of the validity of the patents would arise only as a defense asserted by the present plaintiff. Hence, the controversy does not "arise under" the patent laws. *Product Engineering & Mfg., Inc.* v. *Barnes*, 9th Cir. 1970, 424 F.2d 42; *Ski Pole Specialists, Inc.* v. *McDonald*, 9th Cir. 1968, 159 U.S.P.Q. 709; *Cf. MacGregor* v. *Westinghouse Elec. & Mfg. Co.*, W. D. Pa. 1942, 45 F. Supp. 236, *aff'd.* 3d Cir. 1942, 130 F.2d 870.

The appellants cite decisions of lower federal courts which they view as reaching contrary conclusions.[3] However, we agree with the district court that the *Public Service Comm'n* v. *Wycoff* rationalization is controlling. The first action was properly dismissed.

In the second case, filed in May, 1970, after the dismissal of the first case, the same plaintiff has sued the same defendants in the same district court again seeking a declaratory judgment that the same patents are invalid.

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[2] Plaintiff suggests in its brief that defendants, relying on plaintiff's refusal to pay royalties as a repudiation of contract, might terminate the license and then move against plaintiff and its vendees as infringers. But there is no allegation or indication that defendants have proposed or threatened to follow that course.

[3] Leesona Corp. v. Concordia Mfg. Co., D.R.I. 1970, 312 F. Supp. 392, and JFD Electronics Corp. v. Channel Master Corp., S.D.N.Y. 1964, 229 F. Supp. 514, upon which appellants rely, and the more recent decision in Beckman Instruments, Inc. v. Technical Development Corp., 7th Cir. 1970, 433 F.2d 55, do not even advert to the rationalization of the concept of "arising under" the patent laws that we have expressed and believe to be correct and controlling.

However, after the filing of the first suit and before the filing of the second significant events occurred. In December, 1969, Burlington Industries had sued Thiokol Chemical Corp. in a Pennsylvania state court for royalties allegedly due under the licensing agreement. Thereafter, in March, 1970, the licensing agreement was terminated under procedure provided by the agreement itself.

The district court denied a motion to dismiss this action and in a separate order restrained further proceedings in the state action pending disposition of this appeal. The defendants sought and have been allowed appeals from the interlocutory order denying their motion to dismiss the action. Appellant Burlington also has appealed from the order temporarily staying the state action.

The termination of the license agreement removed the obstacle to federal jurisdiction that precluded the maintenance of the first suit. Moreover, under the liberal doctrine that prevails in this circuit, we think the second complaint sufficiently discloses a justiciable controversy between the plaintiff and the defendants whether the patents are valid and infringed. *Cf. Dewey & Almy Chemical Co.* v. *American Anode, Inc.*, 3d Cir. 1943, 137 F.2d 68; *Treemond Co.* v. *Schering*, 3d Cir. 1941, 122 F.2d 702.

It remains to consider whether granting relief to the plaintiff would violate the statutory command that a "court of the United States may not grant an injunction to stay proceedings in a state court except as expressly authorized by Act of Congress, or where necessary in aid of its jurisdiction, or to protect or effectuate its judgments." 28 U.S.C. § 2283. Before the filing of this second federal suit, Burlington Industries had sued the present plaintiff in a state court to collect royalties allegedly due on account of past use of the questioned patents. Moreover, the federal complaint asserts that Thiokol has refused to pay royalties because it believes that the patents are invalid and have not been infringed. Thus, the principal legal issues upon which the state action is likely to turn are the validity and the infringement of the patents. Preferring a federal

adjudication of these questions, the plaintiff seeks through the present action to forestall an otherwise competent and authoritative state ruling.

In such circumstances, it is clear that section 2283 of title 28 precludes the issuance of a federal injunction restraining the prosecution of the state action. *Atlantic C.L.R. Co.* v. *Engineers,* 1970, 398 U.S. 281; *Vernitron Corp.* v. *Benjamin,* 2d Cir. 1971, 440 F.2d 105. The fact that the disputed matter turns on a question of federal law does not justify a different result. For, as pointed out in the *Atlantic Coast Line* case:

> "[A] federal court does not have inherent power to ignore the limitations of § 2283 and to enjoin state court proceedings merely because those proceedings interfere with a protected federal right or invade an area preempted by federal law, even when the interference is unmistakably clear. . . . [I]f the District Court does have jurisdiction, it is not enough that the requested injunction is related to that jurisdiction, but it must be *'necessary in aid of'* that jurisdiction. . . . [T]he state and federal courts had concurrent jurisdiction in this case, and neither court was free to prevent either party from simultaneously pursuing claims in both courts." 398 U.S. at 294-95.

Normally, the policy that precludes federal injunctions against state actions is also applied to prohibit declaratory judgments which, though not enjoining the state proceeding, would decide and preempt the matter pending there. *Oklahoma Packing Co.* v. *Oklahoma Gas & Electric Co.,* 1940, 309 U.S. 4; *H. J. Heintz Co.* v. *Owens,* 9th Cir. 1951, 189 F.2d 505. True, the statute explicitly prohibits only injunctions. Its analogical extension to prohibit declaratory judgments is justified in situations where the underlying policy against unseemly interference with proper state litigation applies to both. But if the state suit is likely to turn on a question of federal law with which a federal court is likely to be more familiar and experienced than the state

court, and if the state court does not proceed in normal course to adjudicate the matter or otherwise manifests willingness to hold its hand pending federal decision on that question,[4] we think it is neither necessary nor desirable to construe section 2283 as precluding the federal court from issuing a declaratory judgment on the common federal question. Indeed, sound policy dictates that the federal court proceed to decision.

Accordingly, we conclude that the district court correctly refused to dismiss the second suit. However, that suit should not proceed unless and until it shall appear to and be found by the district court that the state court is willing to hold the matter before it in abeyance pending a declaratory federal adjudication.

Finally, the foregoing considerations do not apply to the district court's order in so far as it enjoined prosecution of the state proceeding pending decision in the second federal action. Even though that injunction is of limited duration and for a commendable special purpose, we think it cannot be squared with section 2283.

At No. 19,166 the order of the district court will be affirmed. At Nos. 71-1029 and 71-1030 the order of the district court will be affirmed with instructions to proceed in the suit as instructed in this opinion. At No. 71-1031 the district court will be instructed to vacate its order. No costs in this court shall be awarded to any party against any other.

A True Copy:

Teste:

Clerk of the United States Court of Appeals for the Third Circuit.

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[4] Such action was recently taken by the state Supreme Court in a California case. Order of October 29, 1969 in Adkins v. Lear, L.A. No. 29204-07.

Decision of the District Court

IN THE

UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF DELAWARE

THIOKOL CHEMICAL CORPORATION, *Plaintiff*, v. BURLINGTON INDUSTRIES, INC., and AVISUN CORPORATION, *Defendants*.	CIVIL ACTION No. 3782

Thomas S. Lodge of Connolly, Bove & Lodge, Wilmington, Delaware; William C. Conner and Gordon K. Lister, of Curtis, Morris & Safford, New York City; Joseph A. McManus, James E. Hughes, and Hugh F. Fitzgerald, of Coudert Brothers, New York City, of counsel, for plaintiff.

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Aubrey B. Lank and William H. Uffelman, Jr., of Theisen, Lank & Kelleher, Wilmington, Delaware; C. Frederick Leydig and Dennis R. Schlemmer, Wolfe, Hubbard, Leydig, Voit & Osann, Chicago, Ill., and Richard J. Goetsch and William T. McClain, Chicago, Ill., of counsel, for defendant Avisun Corporation.

WRIGHT, *Chief Judge*.

This is an action for declaratory judgment under 28 U.S.C. §§ 2201 and 2202.

Defendants have moved to dismiss the complaint against them on the grounds that it fails to state a claim upon which relief can be granted and that the Court lacks jurisdiction over the subject matter. Fed. R. Civ. P. 12(b)(6) and 12(b)(1). Defendants assert that the complaint fails to set forth the existence of an actual controversy between plaintiff and defendants of which this Court has jurisdiction to grant declaratory relief.

Plaintiff seeks a judgment declaring that two types of its carpet backing are not covered by patents under which it is licensed by defendant Burlington, that the licensed patents are invalid, that the licensed patents have been misused, and that no royalties are payable to defendant Burlington under the license. Plaintiff further seeks judgment against Burlington for all royalties paid under the patents declared invalid and for the costs of this litigation. Defendant Avisun is joined because it is alleged to be the owner of one of the patents under license, although Burlington had been granted certain rights in the patent, including the right to grant licenses.

Plaintiff and defendant Burlington are successors in interest to an agreement dated May 28, 1964, between W. R. Grace & Co. and James Lees and Sons Company. By that agreement plaintiff has a non-exclusive license under U.S. Patents Number 3,110,905, 3,336,178, and 3,359,934. Plaintiff notified defendant shortly before commencing this litigation that it would no longer pay royalties on its Type 3013 carpet backing and did not intend to pay royalties on its Type 3011, soon to come on the market. Although the license agreement is terminable by the licensee on ninety days notice, no notice had been given when this action was begun on September 19, 1969. Plaintiff's counsel represented to the Court at oral argument that plaintiff gave notice in late December of 1969.

Plaintiff asserts that this action "arises under" the patent laws of the United States, 28 U.S.C. § 1338(a), in

that it seeks a determination that the patents are invalid and not infringed. The thrust of its argument is that "After Lear v. Adkins[1] removed the licensee's disqualification to attack the validity of the licensed patents, a licensee may sue for a declaratory judgment of invalidity if there is a justiciable controversy between the licensor and licensee respecting validity."

Since it is Congress alone which can enlarge the jurisdiction of the federal courts, plaintiff's position must be that *Lear* removed an impediment in the substantive law to the exercise of a jurisdiction which already existed. For the reasons set forth hereafter, the Court is of the opinion that the decision in *Lear* has little or no effect on the issues here, and that plaintiff's position is erroneous.

Equitable estoppel prevents a party from relying on an otherwise valid theory or claim, not because the Court lacks jurisdiction to hear it, but because it would be unfair to permit him to assert it. The Supreme Court pointed out in *Lear* that licensee estoppel arose from the conviction that it would be unjust to permit a licensee to attack patents whose benefits he had sought and received. *Lear* v. *Adkins, supra*, at 668. See also n. 14. The Court put an end to the doctrine, because it was felt to be inconsistent with the federal policy of free competition in use of ideas in the public domain. Id., at 674. *Lear* arose as a suit by a licensor for royalties, and nothing said therein relates to the jurisdiction of the federal courts over a licensee's request for a declaration of invalidity asserted in an independent action.

If, therefore, the instant action is within this Court's jurisdiction, it is not because plaintiff is now permitted to assert a defense to a contract action heretofore unavailable to it. It is because plaintiff's action comes to the Court as a result of an actual controversy between the parties which "arises under" the patent laws.

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[1] 395 U.S. 653 (1969).

It is clear that federal courts have jurisdiction of actions to declare particular patents invalid and not infringed. *General Tire and Rubber Co.* v. *Watkins,* 326 F.2d 926 (4th Cir. 1964). In such proceedings, however, the courts have been careful to determine that the plaintiff has in fact been charged with infringement. *Sanford* v. *Kepner,* 195 F.2d 387, 339 (3d Cir. 1952), *aff'd.* 344 U.S. 13 (1952), *McCurrach* v. *Chenery Bros.,* 152 F.2d 365, 367 (2d Cir. 1945), *Engler* v. *General Electric Co.,* 29 F.2d 421, 422 (S.D.N.Y. 1939), *Smith-Carona Marchant, Inc.* v. *American Photocopy Equip. Co.,* 214 F. Supp. 348 (S.D.N.Y. 1962), *Forest Laboratories Inc.* v. *Formulations, Inc.,* 299 F. Supp. 202, 211, 212 (E.D. Wis. 1969). The charge of infringement creates a justiciable controversy between the parties and the declaratory remedy permits a plaintiff to have an adjudication of the patent's validity and scope without waiting for suit by the patentee.

Defendants state that they have made no charge of infringement of the licensed patents; indeed, they could not. *MacGregor* v. *Westinghouse Electric & Mfg. Co.,* 45 F. Supp. 236, 237 (W.D. Pa. 1942). The purpose of a license agreement is to insulate those who pay for the use of patented processes or products from infringement charges and the burden of litigation. There are three situations only when a licensee could be charged with infringement: (a) the allegedly infringing devices are not covered by the license; (b) the license has expired; or (c) plaintiff has repudiated the license. *Ski Pole Specialists, Inc.* v. *MacDonald,* 159 U.S.P.Q. 709, 711, n. 4 (1968). None of those conditions is present in the instant case. The notice given in December, 1969, caused the agreement to terminate in March, 1970, but that fact cannot confer jurisdiction retroactively on this Court. *Forest Labs* v. *Formulations, Inc.,* 299 F. Supp. 202, 212 (E.D. Wis. 1969).

Counsel represented to the Court at oral argument that defendant has filed an action in Pennsylvania state court seeking royalties under the license. Plaintiff urges that

defendant's position in the state action establishes a controversy between them and makes this an appropriate case for the declaration of their rights. There is no question that plaintiff and defendant are embroiled in a dispute about the license agreement and the underlying patents. Passing the question of whether this Court may consider counsel's representations of litigation pending elsewhere on this motion to dismiss, plaintiff's position ignores the requirement of 28 U.S.C. § 2201 that the controversy be one within the jurisdiction of the federal court. The rights and remedies of these parties are controlled by the state law of contract which they chose to invoke. Federal questions will likely be reached in the state litigation, but it will take more than the abolition of licensee estoppel to convert those questions into a case "arising under" the patent laws of the United States.

In *MacGregor* v. *Westinghouse Electric & Mfg. Co., supra* at 237, the Court said:

> "Actions brought to enforce contracts involving patent rights are not actions arising under the patent laws of the United States of which the Federal Courts have exclusive jurisdiction irrespective of citizenship. Such 'suits not only may, but must, be brought in the state courts.' *Pratt* v. *Paris Gas Light & Coke Co.*, 168 U.S. 255."

The only action which the defendant could bring against the plaintiff at the time of this litigation was commenced was a contract suit in the state court. But cf. *Leesona Corp.* v. *Concordia Mfg. Co., Inc.*, 165 U.S.P.Q. 386 (D.R.I. 1970).

In *Public Service Comm'n* v. *Wycoff Co.*, 344 U.S. 237, at 248 (1952), Mr. Justice Jackson said, "Where the complaint in an action for declaratory judgment seeks in essence to assert a defense to an impending or threatened state court action, it is the character of the threatened action,

and not of the defense, which will determine whether there is federal-question jurisdiction in the District Court." In the instant case, as in *Wycoff*, the realistic position of the parties is reversed, and the plaintiff seeks to have this Court declare that it has a valid defense to defendant's state court contract suit. This action is not one arising under the patent laws.

In a case decided after the decision in *Lear*, the Tenth Circuit agrees that *Wycoff* forbids actions of this type. *Product Engineering and Manufacturing, Inc.* v. *Barnes*, 165 U.S.P.Q. 229 (10th Cir. 1970). Even before *Lear*, Judge Leahy of this Court indicated that an action by a licensee to declare invalid the license agreement and the underlying patents did not confer federal jurisdiction. *Atlas Imperial Diesel Engine Co.* v. *Lanova Corporation*, 79 F. Supp. 1002, 1004 (D. Del. 1948). See also *MacGregor* v. *Westinghouse Electric & Mfg. Co., supra*, and *Ski Pole Specialists, Inc.* v. *MacDonald, supra.*

Plaintiff urges that since the agreement is now terminated and infringement becomes a viable issue, this Court is the only forum in which all issues may be adjudicated. Additionally, says plaintiff, the real possibility of two trials risks inconsistent determinations of the patents' validity. The short answer is that this action is no more proper for determination of the infringement issue than the state action. At the time it was filed, plaintiff could not infringe. As to the risk of inconsistent adjudications, this Court has confidence that the principles of *res judicate* and collateral estoppel insure against the horror of relitigating validity between the same parties. See *Vanderveer* v. *Erie Malleable Iron Co.*, 238 F.2d 510 (3rd Cir. 1956).

Finally plaintiff urges that this Court has jurisdiction of its action for a declaration of non-use, citing *JFD Electronic Corp.* v. *Channel Master Corp.*, 229 F. Supp. 514 (S.D.N.Y. 1964). Although language in that opinion seems

to support plaintiff's assertion, the Court believes the case is inapposite. Plaintiff there was a licensee under the patent whose invalidity and non-infringement is asserted. Judge Wyatt held on summary judgment that the licensee was estopped to assert invalidity, but that adjudication of the non-infringement claim would be proper. The result appears to flow from Judge Wyatt's conviction that *Ostow & Jacobs, Inc.* v. *Morgan-Jones, Inc.*, 180 F.Supp. 38 (S.D. N.Y. 1959) was controlling. *Ostow & Jacobs* was a defamation of product case, wherein Judge Dimock sustained federal jurisdiction because "an aspect of the federal law of patents is essential to plaintiff's success." 100 F.Supp. at 43. From the portions of the complaint and prayers for relief quoted in *JFD,* and the apparent concession by defendant that it had "charged in the trade an infringement by plaintiff of the Greenberg patent," it appears that defendant had made known to the plaintiff's customers that sale or use of the accused product subjected them to potential infringement litigation. Under those circumstances, the Court had jurisditcion for the reasons stated in *Ostow & Jacobs.* To the extent that *JFD* indicates that a licensee who asserts non-use only of licensed patents may resort to the federal courts for declaratory relief, this Court expresses its respectful disagreement.

Defendants' motion to dismiss the complaint will be granted. Submit order in accordance herewith.

Wilmington, Delaware
May 25, 1970

Order of the District Court
Entered December 11, 1970

IN THE UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF DELAWARE

THIOKOL CHEMICAL CORPORATION, *Plaintiff*, *v.* BURLINGTON INDUSTRIES, INC. and AVISUN CORPORATION, *Defendants.*	CIVIL ACTION No. 3906

ORDER TO STAY

AND NOW, TO WIT, this 11th day of December, 1970, this Court, on the application of defendants, having entered an Order certifying this case to the United States Court of Appeals for the Third Circuit, pursuant to 28 U.S.C., Section 1292(b), the Court on its own motion, in consideration of the orderly administration of justice, and over the objection of defendant, Burlington Industries, Inc., hereby

ORDERS that the plaintiff Thiokol and the defendant Burlington in the within action are hereby ordered not to proceed further in the case captioned *Burlington Industries, Inc.* v. *Thiokol Chemical Corporation*, Civil Action No. 1578, presently pending in the Court of Common Pleas of Bucks County, Pennsylvania, until the final disposition of defendants' petition under Rule 5, F.R.A.P., for an appeal from the Order entered herein upon this Court's Opinion dated November 16, 1970 denying defendants' motion to dismiss

the within action and in the event of such appeal, until the final disposition of such appeal.

/s/ CALEB M. WRIGHT
Chief Judge

Approved as to form:

/s/ THOMAS S. LODGE
Attorney for Plaintiff

/s/ EDWARD B. MAXWELL, 2ND
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Burlington Industries, Inc.

/s/ AUBREY B. LANK
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[redacted]

Supreme Court of the [redacted]

[redacted]

October Term, 1971.

[redacted]

No. 71-[redacted]

[redacted]

TEXACO, INC., CHEMICAL CORPORATION,

Petitioner,

v.

BURLINGTON INDUSTRIES, INC. and AVTEX CORPORATION,

Respondents.

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[redacted]

[redacted]

[redacted]

IN THE

Supreme Court of the United States

OCTOBER TERM, 1971.

No. 71-585.

THIOKOL CHEMICAL CORPORATION

Petitioner,

v.

BURLINGTON INDUSTRIES, INC. AND AVISUN CORPORATION

Respondents.

BRIEF FOR RESPONDENT BURLINGTON INDUSTRIES, INC. IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT.

Respondent, Burlington Industries, Inc. (hereinafter "Burlington") in compliance with Rule 40 of this Court has, in general, omitted from this brief, matter adequately presented in the Petition.

RESTATEMENT OF QUESTIONS PRESENTED.

1. Does a United States District Court have jurisdiction under 28 U. S. C. § 1338(a) of a declaratory judgment action brought by a patent licensee against its licensor where the licensee has breached, but not terminated, the license agreement?

2. Does 28 U. S. C. § 2283 prevent a United States District Court from enjoining the parties in an action before it for declaratory judgment as to the validity, enforcement and infringement of patents, from further proceedings in a pending state court action in assumpsit between them seeking royalties for breach of an agreement licensing said patents?

STATEMENT OF THE CASE CORRECTING OMISSION.

The statement of the case in the Petition is inadequate in that it omits an accurate chronology of the events set forth therein. In particular, Thiokol waited more than three months after the filing of the first action in the United States District Court in the District of Delaware before giving notice of terminating the license, and said notice was given after Burlington had brought an action in assumpsit against Thiokol in the Court of Common Pleas of Bucks County, Pennsylvania for recovery of royalties due under the license agreement. Thereafter, the first action in the District Court was dismissed.

The injunction, vacated by the Court of Appeals, was entered against the parties to a second District Court action filed after the first District Court action was dismissed.

ARGUMENT.

Appeal Number 19,166.

Both Thiokol and its customers were licensed at the time the declaratory judgment complaint was filed in the District Court, and that license was not terminated until after the complaint in assumpsit for recovery of royalties under the license had been filed by Burlington in the State Court. Neither Thiokol nor its customers were threatened with an action for patent infringement prior to termination of the license agreement. There could be no federal jurisdiction in the District Court, since there could be no action, nor valid threat of action, arising under any Act of Congress relating to patents, copyrights or trade-marks as required by 28 U. S. C. § 1338(a) and as found by the District Court and affirmed by the Court of Appeals. Accordingly, the complaint was properly dismissed.

Thiokol has sought to obscure this legal reality. As long as the license contract was not terminated, there could not have been a valid charge of infringement against the customers of Thiokol, whether or not Thiokol had paid royalties thereunder.

Where a contract has been breached, the non-breaching party has a number of remedies among which is the right to specific performance of the contract. Burlington exercised this right when it sued Thiokol in a state court for royalties under the license agreement. Burlington has never taken any position inconsistent with enforcing its contractual relationship with Thiokol, and there are no facts

in the record (and indeed none are set forth in Thiokol's Petition) to substantiate the allegation that Burlington had threatened Thiokol's customers with patent infringement. Surely, Thiokol cannot create Federal jurisdiction under the patent laws by committing acts constituting breach of contract.

Appeal Number 71-1031.

In *Mandeville v. Canterbury*, 318 U. S. 47 (1943), this Court ruled that the predecessor to 28 U. S. C. § 2283 prohibited a Federal Court from restraining proceedings in a later-filed state court action, where the suits in question were *in personam* in nature.

In the recent case of *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 91 S. Ct. 1434 (1971), this court unequivocally rejected a per se application of estoppel based on a prior holding of patent invalidity, in a subsequent patent infringement action brought by the patent owner, thus clearly negating the concept of "in rem invalidity" in patent cases.

In arriving at its holding in *Mandeville v. Canterbury, supra*, this court reviewed an exception to the then Section 265 of the Judicial Code, 28 U. S. C. § 379 to the effect

> "that if two suits pending, one in a state and the other in a federal court, are *in rem* or quasi *in rem*, so that the court or its officer must have possession or control of the property which is the subject matter of the suits in order to proceed with the cause and to grant the relief sought, the court first acquiring jurisdiction or assuming control of such property is entitled to maintain and exercise its jurisdiction to the exclusion of the other."

". . . This exception to the prohibition has been regarded as one of necessity to prevent unseemly conflicts between the federal and state courts and to prevent the impasse which would arise if the federal court were unable to maintain its possession and control of the property, which are indispensable to the exercise of the jurisdiction it has assumed. But where the judgment sought is strictly *in personam* for the recovery of money or for an injunction compelling or restraining action by the defendant, both a state court and a federal court having concurrent jurisdiction may proceed with the litigation at least until judgment is obtained in one court, which may be set up by res judicata in the other." 318 U. S. 47, 48, 49.

Whether or not this rationale would still apply to the present statute 28 U. S. C. § 2283 is not pertinent to the present proceedings. Not only is an action for patent infringement not an *in rem* proceeding, but also the state court action for breach of contract is clearly not an *in rem* proceeding. Moreover, the injunction was entered against the parties to an *earlier-filed* state court action. Accordingly, Thiokol's request for a clarification of the *Mandeville* rule, at best, seeks an advisory opinion about a hypothetical question relating to an injunction which did not issue.

CONCLUSION.

Petitioner has sought to obtain review of lower court proceedings on the grounds that this Court should clarify its position as to the applicability of two of its prior decisions to situations which, under the facts below, do not exist. It is well settled policy of the Supreme Court to

decline to give such advisory opinions, and accordingly, the Petition should be denied.

Respectfully submitted,

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1971

No. 71-585

THIOKOL CHEMICAL CORPORATION,
Petitioner,

vs.

BURLINGTON INDUSTRIES, INC. AND AVISUN CORPORATION,
Respondents.

RESPONDENT AVISUN'S BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT.

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OCTOBER TERM, 1971

No. 71-585.

THIOKOL CHEMICAL CORPORATION,
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Respondents.

RESPONDENT AVISUN'S BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT.

This brief is in opposition to the Petition of Thiokol Chemical Corporation (hereinafter "Thiokol") for a Writ of Certiorari to review the decision of the U. S. Court of Appeals for the Third Circuit entered September 7, 1971 in Appeal Nos. 19, 166 and 71-1031.

QUESTIONS PRESENTED.

Thiokol's Petition sets forth two questions for review by this Court. The first is directed to the jurisdiction of the District Court (Appeal No. 19,166) and the second concerns the power of the District Court to enjoin Burling-

ton Industries, Inc. (hereinafter "Burlington") from proceeding in what petitioner characterizes as a "later-filed" state court action (Appeal No. 71-1031). This brief is limited to the jurisdictional issue involved in Appeal No. 19,166. Response to the second aspect of the Petition is left to Burlington, the plaintiff in such state court action and the appellant in Appeal No. 71-1031. While the state court action referred to was filed subsequent to the action the District Court dismissed for want of jurisdiction (which was the subject of Civil Action 3782 and Appeal No. 19,166), it was filed prior to the second Thiokol action (Civil Action 3906) in which the injunction against proceeding in the state court was issued by Judge Wright.

Respondent Avisun Corporation (hereinafter "Avisun") disagrees with Thiokol's statement of the jurisdictional issue. That issue—correctly stated—is:

> Does a federal district court have jurisdiction under 28 U. S. C. § 1338(a) to render a declaratory judgment as to the validity and enforceability of licensed patents at a time when the license agreement is in effect and neither the licensee nor its customers have been charged with infringement.

STATEMENT OF THE CASE.

Thiokol's complaint in the original declaratory judgment action against Burlington and Avisun alleges a dispute as to liability for royalties under a then-existing license agreement covering patents owned by the two defendants.

Thiokol and its predecessor had paid royalties to Burlington under the license agreement from its inception in 1964 to the first quarter of 1969. At that time, Thiokol breached the agreement by refusing to pay the specified royalties and then instituted the present action in September of that year. Thiokol's complaint included an allega-

tion that the licensed patents were invalid and prayed for a ruling by the court to that effect. But, it acknowledged that Burlington and Thiokol had a dispute as to whether the latter's production was in fact covered by the license agreement and, therefore, subject to payment of royalties—a pure contract controversy. Thiokol did not allege a charge of infringement by Burlington or Avisun.

It is, indeed, undisputed that neither of the patent owners had ever charged Thiokol or its customers with infringement of the licensed patents prior to the institution of the action. As the District Court correctly observed, there was not and could not be any issue of patent infringement between the licensor and the licensee under an existing license agreement. The essence of the license was to insulate Thiokol from any charge of infringement.

In dismissing the case for lack of jurisdiction, the District Court held that the "rights and remedies of these parties are controlled by the state law of contract" and then following the rationale of *Public Service Commission* v. *Wycoff*, 344 U. S. 237 (1952)—emphasized that the "action is not one arising under the patent laws."

In an attempt to persuade the Court of Appeals that the District Court was wrong on the facts, Thiokol argued for the first time on appeal that when it ceased paying royalties under the agreement its customers were exposed to possible suits for patent infringement even if the license remained in effect. It contended that this provided the requisite "threat" to justify the declaratory judgment. The Court of Appeals, however, found that the patent owners had never threatened to move against Thiokol's customers as infringers and that federal jurisdiction could not be premised on that hypothetical basis. It affirmed the District Court's holding that there was no jurisdiction for a declaratory judgment action by Thiokol under 28 U. S. C. 1338(a).

ARGUMENT.

Thiokol argues in its Petition that the Courts below have misapplied the *Public Service Commission* v. *Wycoff* rule. While apparently conceding that a threatened state court action against a licensee for royalties would not support federal declaratory jurisdiction, Thiokol contends that the Court below ignored the possibility of "threatened action" for patent infringement against Thiokol's customers after Thiokol stopped paying its royalties. The fallacy of that argument is that there was no threatened infringement action against such customers of Thiokol—in fact or in theory. And, Thiokol's complaint carefully avoided alleging that charges or threats had ever been made against its customers. The Court of Appeals, of course, specifically found that none had been made. The status of such purchasers in possession of Thiokol's products is no different than one who makes, uses or sells a patented product but is never charged with infringement or otherwise bothered by the patent owner. It is hornbook law that such facts provide no basis for a declaratory judgment action.

The Court of Appeals holding is completely consistent with the *Wycoff* case. This Court in *Wycoff* held that "it is the character of threatened action . . . which will determine whether there is federal-question jurisdiction." The Court further reiterated the constitutional requirement that the remedy afforded by the Declaratory Judgment Act is available *only* where there exists a justiciable controversy within the jurisdiction of the court. In patent cases, it is well established that there must be some threat or charge of infringement to create the necessary controversy. *Sanford* v. *Kepner*, 195 F. 2d 387, 390 (3d Cir. 1952) aff'd 344 U. S. 13; *Tuthill* v. *Wilsey*, 182 F. 2d 1006, 1008 (7th Cir. 1950); *Ski Pole Specialists, Inc.* v. *McDonald*, 159 USPQ 709 (9th Cir.

1968); *Alamo Refining Co.* v. *Shell Development Co.*, 99 F. Supp. 790, 797 (D. Del. 1951). In the present case no threats had been made against Thiokol or its customers. The requisite controversy was, therefore, lacking.

Thiokol argues, in substance, that a threat of infringement against its customers exists by reason of its own unilateral act of breaching the license contract and the language of the license grant. The agreement provided that royalties were to be paid on all backing materials sold by Thiokol which, but for the license, would infringe any claim of the patents if utilized in the manner described in the patents, and that such payment by Thiokol automatically licensed its customers to use the backing material. Such provisions simply spell out in detail what was inherent in the license grant and provide no substance for petitioner's argument. When a licensee breaches his contract by failing to pay royalties, the owner of a patent has the option of suing for breach of contract or of terminating the agreement and suing the licensee and/or the licensee's customers for infringement. While the license remains in effect the licensor's sole right of action against the licensee is for breach of contract. Absent any threat of suit or charge of infringement against the licensee's customers, a federal district court clearly has no jurisdiction for a declaratory judgment action under 28 U. S. C. § 2201.

Thiokol's theory: that as a result of its unilateral breach of the license contract its customers at some future time *might* be threatened by Burlington for patent infringement and that such possibility is sufficient to establish federal jurisdiction, is imaginative but unrealistic and without legal support. We know of no authority supporting this theory and Thiokol has cited none. Moreover, such proposition is directly contrary to the *Wycoff* rule which requires that there exist a justifiable controversy resulting from a "threatened" federal action.

CONCLUSION.

The petition for Writ of Certiorari should be denied because (1) this Court's ruling in *Wycoff* needs no clarification when applied to the facts of the present case and (2) the Courts below have correctly ruled on the jurisdictional question presented here for review.

Respectfully submitted,

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Petitioner,

—vs.—

BURLINGTON INDUSTRIES, INC.

and

AVISUN CORPORATION,
Respondents.

REPLY BRIEF FOR PETITIONER

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Respondents.

REPLY BRIEF FOR PETITIONER

Both respondents have opposed the petition on the asserted basis that there was no threat of an action for patent infringement against Thiokol's customers.

That argument ignores the following uncontroverted facts:

1. The license agreement required the licensee Thiokol to pay royalties only on its sales of backing materials "which, but for this license, would infringe" the licensed patents when made into tufted fabrics.

2. The licensor Burlington had demanded the payment of royalties on Thiokol's sales of the backing materials in question (thereby asserting that tufted fabrics incorporating these backing materials would "infringe" the patents in the absence of a license).

3. The license agreement further provided that Thiokol's customers were licensed only if Thiokol had paid the specified royalty.

4. Thiokol had not paid such royalty on the materials in question (so that its customers were not licensed to use these materials).

Consequently, Thiokol's customers were clearly subject to an action for patent infringement, even before the license agreement was formally terminated. And, although Burlington had not expressly threatened to bring such an action against Thiokol's customers, it had undeniably charged them with patent infringement. Such a charge, even when made only by implication, has been universally recognized as creating the "justiciable controversy" necessary to confer jurisdiction of an action for declaratory judgment. See, e.g., *Muller* v. *Olin Mathieson Chemical Corp.*, 404 F.2d 501, 504-5 (2 Cir. 1968), and cases discussed therein.

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